Established in 2008

"बेटी बचाओ, बेटी पढ़ाओ"

Jayoti Vidyapeeth Women's University, Jaipur

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A STUDY ON THE FINANCIAL PERFORMANCE OF DISTRICT CO-OPERATIVE BANK IN RAJASTHAN WITH SPECIAL REFERENCE TO JAIPUR AND AJMER DISTRICT

Submitted by

MAHESH KUMAR JAKHAR

Enrollment No :

JVR-l/22/10084

Under the Guidance of

DR. OMPRAKASH GUPTA

Department of Management & Commerce

Faculty of Law & Management

A Synopsis

Proposal Submitted in

fulfillment of the requirements for the award of the Degree of

DOCTOR OF PHILOSOPHY

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Introduction

The Cooperative banking sector is one the main partners of Indian Banking Structure, the Cooperative Banks have more reach to the rural Rajasthan, through their large network of credit societies in the institutional credit structure. The Cooperative sector has played a key role in the rajasthan economy and always recognized as an integral part of our state economy.

Agriculture plays a stupendous role and occupies a cardinal place in the Rajasthan economy. The fact that half of the national income is being contributed by export of agro-based produces substantiates this point. Further, majority of the Country's people is depending on agriculture in one way or the other. Hence, the welfare of the people and their economic condition, and also the economic development of the Country depend, to a greater extent, on the output, progress and prosperity of agricultural sector. In spite of this significant role of agriculture, it is unfortunate to note the pathetic situation of agriculturists as half of the rural population live below poverty line and most of them remain indebtedness. One of the reasons for this has been on account of inadequate returns from agriculture sector. Besides, modernization schemes in agriculture resulted in the substantial increase in the investments on seeds, fertilizers, pesticides, irrigational facilities, cost of labour and on laboursaving equipment. As a result, the financial requirement of farming- community has been increasing year after year on a consistently increasing basis. To put it differently, the farmers are in need of higher amounts of credit/loan for the purpose of undertaking agricultural activities. In this background, Co-operative Banks, based on their past performance, are recognized as the better institutions for the provision of sound and dynamic credit to farmers. The Co-operative Banks have been performing well in mobilizing small rural savings and using the same,besides the funds mobilized from other sources, to finance the requirements of various growth sectors including agricultural sector.

Overview of Banking sector

Indian banking system has undergone a number of remarkable changes during six decades of post-independence period. Though it is very difficult to present all the changes, an attempt is made herein under to present the important changes.

Nationalisation of Reserve Bank of India: The Reserve Bank of India was established

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on April 1, 1935 as shareholders' bank. The first major step taken by the Union Government of India in the field of Indian Banking was the nationalization of Reserve Bank of India on January 1, 1949. It is a symbol of financial sovereignty 3 and stability of the country. It holds the ultimate reserves of the Nation, controls the flow of purchasing power - whether currency or credit, and acts a banker to the State.

Nationalisation of State Bank of India: The State Bank of India was set up in July 1955, under the State Bank of India Act, 1955, when it took over assets and liabilities of the former Imperial Bank of India. The Imperial Bank was the biggest commercial bank in the country. The State Bank of India functions/serves as the agent of Reserve Bank of India at places where it has a branch and where the Reserve Bank of India has no branch.

Nationalisation of major Commercial Banks: A significant change in the field of commercial banking since Independence was the nationalization of banks with deposits of Rs.50 crore or more. The objective of bank nationalisation in 1969 was to remove the ownership and control of a few industrial enterprises over the commercial banks. This move aimed at preventing the concentration of income and wealth in the hands of a few.

Co- operative Banks: The Co-operative banks have been established under Cooperative Societies Acts of different states. The co-operative movement was started in 1904 with a view to provide financial assistance to agricultural sector.

Regional Rural Banks: The Regional Rural Banks are the new banking institutions which have been added to Indian Banking Sector since October 2, 1975. The primary objective of Regional Rural Banks is to develop the rural economy by providing credit and other facilities particularly to the small and marginal formers.

National Bank for Agricultural and Rural Development (NABARD): The NABARD has emerged as an apex refinancing institution for agricultural and rural credit in the country since July 1982. It has taken over the financing function of Reserve Bank of India in respect of State Co-operative Banks and Regional Rural Banks, and it provide all types of production and investment credit to agriculture, 4 small scale industries, cottage and village industries and other allied economic activities.

Development Banks: Development Banking or the Institutional Banking System has

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been introduced in India mainly to provide medium-term and long-term capital for industry and agriculture.

Financial Performance of Co-Operative Banks : A Brief Analysis Co-operative Banking Sector, though the oldest in the Banking Sector, it is one of the weakest segments of Indian Banking System. Both the Reserve Bank of India and the National Bank for Agricultural and Rural Development have taken various policy measures in respect of Urban Co-operative Banks and Rural Credit Co-operatives during the recent years to transform them into financially sound entities.

History of co-operative structure

Co-operative societies were created very early when the need to help workers improve their livelihoods and protect their interests arose. It happened long before the fair-trade movement had begun. Co-operative is an organizational structure where people who have the same needs tie up to mutually satisfy their needs. With the emergence of mass production during the Industrial Revolution, small-sized or comparatively financially weaker entrepreneurs who had initially been capable of producing high quality goods in proportionate demand of supply and showing a sustainable growth, found themselves competing with large industries, which sold both, less-expensive, poorly made products and in large quantity. Production was changing rapidly to accommodate consumers' desire for cheaper, plentiful goods. This era witnessed more significant changes in the market system; one of the cruelest was that the large industries followed unfair labour practices to meet production quotas. Employees suffered as their working conditions were abominable. Low pay, long hours, unhygienic workplaces, and no execution of worker rights, added to the growing frustration among the working class.In Co- operatives and Community Development: Economics in Social Perspective, Brett Fairbairn and his co-authors describe the situation: "The monotony and cruelty are hardest on the children; they work fourteen-, even sixteen-hour days, standing, fetching, holding, with hardly a break. It is a long time. The speed of the machinery is calculated and they [the masters] know how much work it will do; and unless [the children] are driven and flogged up, they cannot get the quantity of work from them. The average life expectancy of an urban labourer is seventeen years." The situation, now, demanded new types of organization that while retaining the old models of production, also provided economic security to individual producers.

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Review of literature

Pathania and Singh (1998) in their study observed that the performance of the HPSCB in terms of membership drive, share capital, deposit mobilization, working capital and advances had improved over the period of five years i.e. 1991-92 to 1995-96. However the recovery performance was unsatisfactory and overdues had increased sharply due to inadequate professional manpower, training and a sense of competition.

Kumar and Singh (2001) conducted a study on overdues related to IRDP loan in Milch Animal Scheme. The findings of the study were that out of 100 borrowing families, 77 percent were defaulters, the number of defaulters being highest in case of landless laborers, with an average of 53 percent of overdues to demand. He suggested that overdues resulted due to the lack of appropriate backward and forward linkages as a result of which the borrowers could not augment their income. Heindicated that low repayment capacity, cropping intensity, consumption expenditure and income from dairy farming significantly influenced the overdues.

Taori(2002) analyzed various factors contributing to NPAs and he pointed out that the decade of 90's heralded an era of economic and monetary policy change brought about by the Government of India and RBI to globalize the Indian Economy. According to him, the surest way of containing NPAs was to prevent their occurrence. He emphasized on proper risk management system in the banks, strong and effective credit monitoring, an open and cooperative working relationship between banks and borrowers allowing for corrective action.

Verma and Bhagavan (2003) stressed that overdues could be minimized if the size of credit is related to production on a scientific basis, loans are effectively supervised in relation to their utilization and the cultivator is approached at theright time for repayment. He concluded that a majority of borrowers became defaulters due to willful causes, which included misutilization of credit or of funds generated through investment activity and political factors. The major non-wilful causes were failure of crops, low market prices for the produce, inadequate income and natural calamities.

Niranjanraj and Chitanbaram (2003) observed that cooperative banks also need attention in developing models for evaluating their performance as they too are important part of Indian financial market. They opined that while measuring the

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performance of the DCCBs, one has to consider not only their economic performance but its performance as cooperative organizations. They developed a model to assess performance of cooperative banks. They considered 23 parameters falling into four major groups for measuring the performance of DCCBs and assigned appropriate weights to each parameter.

Viswanath(2004) made an analysis of the performance of Credit Co- operatives and their overdues problems in India. He found that between the period 1950-51 to 1995-96, the total loans advanced by them increased from Rs. 24 crores to Rs. 14,201 crores i.e. 587 times, but unfortunately this increase was followed by a corresponding increase in overdues.

Das Debabrata (2005) made an attempt in his study to examine the repayment behavior of loans in respect of the borrowers of Arunachal Pradesh State Cooperative Apex Bank Ltd. The study was based on primary data collected through field survey, using a structured questionnaire covering the period from 1994-95 to 1998-99. He concluded that the highest percent of defaulters were found among the borrowers who were issued loan for livestock and poultry (72.41 percent), followed by borrowers of agricultural loans (66.07 percent), horticulture (47.05 percent), small business and retail trade (43.58 percent) and transport and other services sector with 41.46 percent of defaulters. Majority of defaulters (67percent) belonged to IRDP beneficiaries and borrowers who belonged to the group drawing an amount of loan of Rs. 50,000 and above had lesser tendency (11.11 percent) of default. He identified one of the main reasons of non-repayment or less repayment of loans as the unwillingness of the borrowers to repay rather than their ability to pay.

Sachdeva and Singh (2001) indicated that low repayment capacity, cropping intensity, consumption expenditure and income from dairy farming significantly influenced the overdues. They observed that repayment of loans makes possible the recycling of public money for development and also generates confidence among the banks in their clientele. Due to the increasing burden of overdues, the outstanding loans get artificially enhanced thereby giving an indication of complacency and they observed that rural lending was a losing proposition and was being pursued due to political and social compulsions.

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Kaveri (2005) in his article attempted to extend the study conducted by the Verma Committee more specifically to ascertain whether enough signals of weakness were indicated much before the event. The Verma Committee on restructuring of weak public sector banks identified weak banks, strong banks, and potentially weak banks on the basis of seven efficiency parameters. They concluded that weak, strong and potential weak banks were adequately discriminated by loan default on one hand and profitability on the other. Though banks in all three categories reduced the NPA percentage and improved the position of profitability, what matter were their levels. This calls for corrective strategies. Regarding loan default, two strategies are called for i.e. effective recovery and prevention of entry of fresh NPAs. Credit monitoring in banks should be strengthened by creating a database.

Ramesha (2006) in his article "Credit Risk Management in Agricultural Cooperative Banks" emphasized that in the deregulated and competitive environment, agricultural cooperative banks need to reposition themselves in order to survive and function as commercially viable institutions. Needless to say, credit discipline should form the centerpiece of the strategies for the survival and growth of cooperative banks. More importantly, inherent risk in lending to agriculture in a country like India makes credit risk management all the more important.

Singh (2009) in his article observed that banks were continuously monitoring the (bad) accounts as the RBIs new assets classification came into effect from March 31, 2004. He further added that NPAs were in control and most of the PSBs had net NPAs of 4-4.5 percent of net advances. NPAs are not galloping as it used to be in the past and many banks had a coverage ratio of as high as 85 percent. Apprehending higher provisioning for NPAs and a lower net profit, he emphasized on the need for change in the strategy to tackle with this problem.

Shekhar(2009)in his study pointed out that the third and the most important dimension of banking sector reforms was reduction of the non-performing assets. According to him the whole effort to reform the banking sector would collapse if the banks are not able to contain and reduce their NPAs. In a bid to help the banks and financial institutions to recover funds, the government enacted the SARFAESI Act, 2002, with a hope that the problem would be resolved amicably for the benefit of both the banks and the industry paving the way for the easy availability of cheaper credit.

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Gujral (2011-12) pointed out that considering the gravity of the situation, Reserve Bank Of India has taken a number of constructive steps for arresting the incidence of NPAs like setting up of LokAdalats, Debt Recovery Tribunals (DRTs), One Time Settlement Scheme and the Corporate Debt Restructuring (CDR) Scheme and promulgation of the SARFAESI Act, 2002. The banks and thelaw enforcement agencies will have to fill the gaps that exist, to make this Act successful as intended.

Yeole (2014) in his study observed that NPAs in Public Sector Banks were relatively higher than the international standards and by Jan 2003, the NPAs of Co-operative Banks amounted to Rs. 11,471 crores i.e. 22 percent of total advances.He pointed out that the external factors like ineffective recovery tribunals, willful defaults and change of government policies were the main factors responsible for overdues and internal factors like managerial deficiencies, poor credit appraisal and improper SWOT analysis were responsible for the excessive overdues creating a pathetic state of Indian Banking System

Nair (2014) observed that by 2004, the formal institutionalized cooperative sector completed a century of its service to the nation. Strength of the cooperatives is their omnipresence, coverage and percolation. They are versatile in the sense that, they can take up any type of rural financing and rural service activity at short notice and at lowest transaction cost. But besides excelling on all fronts, the cooperatives are feeling handicapped due to mounting NPAs. Their overdue loans increased to 95,899.60 millions in 2000-01 as compared to 63.79 indicated in 1950-51, thereby subjecting them to a sustained and systematic process of reviews, reorganisation and restructuring.

NABARD (2015) conducted a study to evaluate the financial performance of 1872 Urban Cooperative Banks and 1, 06,919 Rural Cooperative Credit Institutions. The findings of the study were that in all financial institutions in the rural sector (STCBs, CCBs, SCARDBS and PCARDBS), percent of NPAs in the substandard category declined, while in the doubtful category, NPAs increased during 2003-04 suggesting deterioration in the asset quality. NABARD (2005)suggested to the Cooperative Banks to implement One Time Settlementsystem (OTS) and refer small value advances to LokAdalats and highvalue advances to Debt Recovery Tribunals(DTRS). Further,

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State Governments were requested to help Cooperative Banks in reducing NPAs by taking special Recovery Devices.

Bhaumic (2015) conducted a study on the risk aversion behavior of banks in emergency credit markets with special reference to India. Using the bank level date from India for nine years (1995-96 to 2003-04), he observed that credit market behavior of banks in emergency markets is determined by past trends, the diversity of the potential pool of borrowers to whom a bank can lend and regulations regarding the treatment of NPAs and lending restrictions imposed by RBI. He further suggested that credit disbursal by banks can be facilitated by regulatory and institutional changes that help banks mitigate the problems associated with enforcement of debt covenants and treatment of NPAs on the balance sheets.

Bhat and Ahmed (2016) conducted a case study to assess whether cooperative finance resulted in agricultural development and social upliftment in the state of Jammu and Kashmir. They observed that an effective delivery system was must for improving the role of cooperative banks in agricultural development consisting of integration of services, easily approachable and prompt cash to ultimate borrowers. They emphasized on increasing the recovery period to prevent the sale of agricultural produce at lower prices and added that in case of default of loans due to natural calamities, the bank should permit conversion of crop loans into term loans to prevent resultant NPAs.

Kakker(2017) discussed the role of Asset Reconstruction Companies in his article. According to him a high level of NPAs in the banking system can severely affect the economy in many ways. The issues arising from NPA stock need to be addressed on a priority basis and the ARCs, therefore, need to have focus on expeditious resolution of NPAs in order to address concerns of the banking system (either as investor or seller) and unlock the value in NPAs.CDR and ARCs are twopronged strategies to address the NPA resolution. Co existence of CDR and ARCs is a mutually beneficial association.

Singh (2018) highlighted the importance of the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act (SARFAESI ACT 2002). He regarded this Act to be a welcome legislation that will

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have a significant positive implication not only for the banking and financial services sector but also for the economy as a whole. With the enforcement of this landmark Act, it is felt that borrowers will no longer be able to take banks lightly and simply walk away with scarce public money.

Bagchi (2018), made an attempt to analyze the performance of cooperative credit institutions especially Primary Agriculture Credit Societies, and observed that PACS could not match up to the increasing requirements of growth dimensions in the agriculture/rural developments in the post independence period, although till the late 50s they were the only available source of institutional rural finance. The dismal performance of cooperative bank was due to unnecessary government intervention and high NPAs which are due to the reason that cooperatives lend to farm sector which are more prone to losses.

Pevekar and Ashvine (2018) emphasized in their article on the role of public relations personnel in reducing the NPAs. The authors have tried to examine the current situation of the banks with respect to NPAs and the consequences of further increase. Even a small percent decrease in NPAs can lead to healthier bottom-lines for the bank. They observed that the origin of the problem of huge NPAs was in the quality of credit risk management by the banks i.e. lack of adequate preventive measures like pre-sanction appraisal responsibility and effective post disbursement supervision.

Noronha (2019) has outlined the causes and impact of NPAs. According to his findings, inadequate preparation for financial liberalization particularly inrespect of banking supervision, lack of sincere corporate culture and bad loans, the adverse agro climatic conditions and floods, the large-scale government involvement in the banking sector, lose control on connected lending, tendency of the banks to lend liberally during the upswings of business cycles, were the factors contributing to excessive overdues. He suggested measures to curb NPAs, which would in turn lead to a healthy growth of the financial sector.

Venugopal (2019) highlighted the incredible saga of NPA management in the Indian Banks in the recent years. With the guidelines laid down by RBI and the experience gained over the years, most banks have now evolved a competent

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mechanism to handle out of court settlements, be it a small borrower or a corporate client with different measures. The success achieved in the management of NPAs should lead to a gradual improvement in the asset quality of the banks. Banks cannot afford to be complacent just because they have an effective tool for debt collection in the form of SARFAESI Act or OTS. They should aim for a gradual improvement in asset quality through a proper evaluation and monitoring of credit, verification of assets, ensuring adequate security or collateral backing and effective follow up of the end use of credit, as asset quality holds the key to the sustainable NPA Management.

Shiralashetu and Akash(2020) observed in their study that the ineffective legal system was responsible for the problem of mounting NPAs.They suggested that the banks should improve the effectiveness of recovery management, credit management and legal system to deal with the problem of mounting NPAs. They further added that Foreign Banks are more efficient in controlling NPAs as compared to Public Sector and Private Sector banks in terms of total advances.

Ghosh and Newar (2020) observed that even though the average size of the retail loan portfolio is low compared to industry segments, the quality is extremely critical. With low interest rates, diversification and fiscal sops, there has been ahuge splurge in retail portfolio in the past few years. The banks, while going on retail lending spree, overlooked some of the risk factors, resulting in excessive NPAs. The crucial issue is the banks need to be more careful while giving out loans, be it retail or otherwise.

John and Philip (2021) stressed that the NPAs is the most generally used yardstick to judge the financial health of the banking system. Since the introduction of the prudential norms in 1992-93 the NPAs of the Indian Banks have been drastically reduced. The percentage of Gross NPAs on Gross Advances has been drastically reduced from 16.58 percent on 31st March 1996 to 5.34 percent on 31st March 2005.This decrease was the result of the stringent measures adopted by the Reserve Bank Of India for the robustness of the banking system of the country. However, the sample studies done by the authors show that the recovery through the speedy process of DRTs is very meager. Therefore, it can be inferred that the bulk of the NPAs in the banking sector remains as an economic cost to the nation.

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Objectives

- To study the working and growth of Co-operative Banks in Rajasthan,
- To evaluate financial performance of selected Co-operative Banks in Rajasthan
- To assess the capital adequacy, reserves, borrowings, liabilities and NPA of selected Co-operative banks in rajasthan
- To evaluate the efficiency and effectiveness of selected Co-operative Banks in
- Rajasthan in mobilising the deposits, lending advances, investments and recovery performance of selected bank
- To find the policy measures for improving the working of co-operative banks

Hypothesis

H0: There is no significant difference between financial performance of selected co-operative banks.

H1: There is a significant difference between financial performance of selected co-operative banks.

H0: There is no significant difference between NPA of different co-operative banks in rajasthan.

H1: There is a significant difference between NPA of different co-operative banks in rajasthan.

H0: There is no significant difference of variance between Opinions of respondents from cooperative banks regarding financial factors.

H1: There is significant difference of variance between Opinions of respondents from cooperative banks regarding financial factors.

Period of the study

Period of the study is for ten years starting from 2010 to 2020 financial year.

Scope of the study

The study intends to analyze the financial performance of selected Co-operative

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Banks in the Rajasthan. For this purpose, it is planned to select the Co-operative Banks in Rajasthan giving representation to geographical area, size of the Banks,Financial Performance (selecting some Banks which are earning profit and which are incurring loss), etc. The study covers the assessment and evaluation of financial performance of both Urban Cooperative Banks and Rural Credit Institutions with an emphasis on unearthing the reasons for the mounting losses and non-performing assets. Further, the study will be based on the financial performance of the selected Co-operative Banks in Ajmer and Jaipur district during the last ten years (2010-2020) which enables to identify the trends in their performance.

Research methodology

Locale of the study

The Rajasthan state will be the locale of the study. The Rajasthan state has been divided into different agro-climatic zones on the basis of cropping pattern, soil texture, soil quality, rainfall, underground water, etc.

Sampling Design

The sampling design of the study will be based on multistage random sampling technique. Agro-climatic zone will provide the first stage of sampling unit. Two District Central Cooperative Banks from each zone will be selected randomly. The list of all the District Central Cooperative Banks in Rajasthan.

Selection of Bank Officials and Borrowers

100 bank officials and an equal number of borrowers from all selected DCCB, will be randomly selected for studying the perceptions of bank officials about NPA and of borrowers the - factors determining their repayment performance.

Collection of Data

Primary as well as secondary data will be collected. The secondary data will be collected from official websites of State Cooperative Bank, Rajasthan, PublishedAnnual Reports, etc. while primary data will be collected from bank officials and borrowers. The secondary data will be related to advances outstanding, non- performing advances for the period of 2010 to 2020 ending on 31st of March.

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For the purpose of primary data collection, two separate questionnaires will be developed, one for bank officials and the other for borrowers. The data will be collected from bank officials regarding their perceptions about NPA in DCCBs in Rajasthan and the data regarding their repayment performance will be collected from defaulter borrowers as well as non-defaulter borrowers.

Statistical Framework

Consistent with the objectives of the study, simple statistical techniques like frequencies, percentages, averages, graphs, etc. alongwith advanced statistical tools like compound growth rates, trend equations, chi-square test, r-test, regression analysis, Analysis of variance (ANOVA), t-test, etc. will be applied to arrive at the logical outcome.

Tentative chapter plan

Chapter 1 : Introduction

Chapter 2 : Review of literature

Chapter : Research methodology

Chapter 4 : Financial performance of co-operative banks

Chapter 5 : Data analysis and interpertation

Chapter 6 : Conclusion Findings and Suggestions

Limitations of the study : The study will be confined to selected Co-operative Banks in Rajasthan with an emphasis on the evaluation of financial performance. Hence, other aspects that are not directly pertaining to the financial performance of Co-operative Banks will be outside the purview of the present study. Further, the Banking Institutions in other sector such as private sector, foreign banks, etc will not be covered in the present study. Besides, the banking institutions in other states in the Country will not be studied in this study.

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